April 27, 2018

Mitsui O.S.K. Lines, Ltd.

Explanation by the CEO and Major Q&A

1. Outline of FY2017 Financial Results

[Overall]

Ordinary profit for FY2017 totaled ¥31.4 billion, an increase of ¥6.0 billion, or 24%, in a year-on-year comparison. It ended with a large upturn from the previous outlook at ¥25.0 billion announced at the end of January. This was due mainly to scale-downed costs related to the establishment of the new company Ocean Network Express (ONE), which was recorded as equity in losses in the containership business, and to a slight upturn in the Dry Bulk Business and Energy Transport Business.

On the other hand, we regrettably recorded a net loss of ¥47.3 billion as a result of a large extraordinary loss posted in the fourth quarter. Today, I will explain this extraordinary loss first.

[About Extraordinary Loss]

The three Japanese shipping companies' containership businesses were integrated and the new company ONE launched its service in April of this year. The three parent companies time charter-out the containerships each one previously operated to ONE, and the rates are set at the prevailing market level. Currently, the market is at a low level, so, as far as MOL is concerned, this chartering-out to ONE results in negative yields. Previously, until the end of January, we expected to record these as losses for each year they occurred. However, as a result of the subsequent discussion with the auditor, we decided to record provisions for the reasonably estimated future losses in a lump sum. Over 80% of the "¥73.4 billion loss related to business restructuring," which was recorded in extraordinary losses for FY2017, is related to the loss from this chartering-out to ONE. Others include costs related to the closure of overseas subsidiaries, and so on.

We also carried forward Business Structural Reforms associated with a large extraordinary loss in FY2015, but at the time, its main targets were mid- and small-size dry bulkers. Actually we completed our measures to shift Dry Bulk Business to our new business model, which can more steadily generate profits regardless of market conditions. Speaking of containerships, we could not take sufficient measures for legacy costs related to chartered-in vessels from outside the company (about 80% of our containerships were chartered-in from outside), though we recognized an impairment loss on our owned vessels. This time around we finally could liquidate unrealized

losses of the businesses that had structural problems. From now on, through ONE yielding the synergy of the integration, we can establish a structure in which our containership business can steadily generate profits. We sincerely apologize for damaging shareholders' equity again, and ask for your understanding. I will explain the future road map to improving profitability, which is now much clearer, with the presentation materials distributed on the Rolling Plan 2018.

As for the dividend, we determined to pay the year-end dividend of ¥10 per share as in our initial plan, in addition to the interim dividend already paid, based on the future path we have cleared toward improving our business performance, though the year ended with a deficit due to the extraordinary losses recorded.

[By Segment]

<Dry Bulk Business>

Spot markets for all four types of bulkers improved from the previous fiscal year. Speaking of Capesize vessels, after recording the highest rates for the first time in four years in December of last year, the demand and supply balance slackened due to the off-period in January, and further, ports closed by cyclones in Western Australia, and stagnation in shipments due to breakdowns of facilities at some iron ore mines in Brazil. As a result, the market weakened. Panamax and mid- and small-size bulkers, on the other hand, benefited from strong shipments of grain loaded on the East Coast of South America, and the market remains firm. The impact of the spot market's upturn is limited due to the significant scale-down of our dry bulkers' market exposure, but the business still ended with a slight upturn from the previous outlook.

<Energy Transport Business>

■ **Tankers**

The crude oil tanker market topped WS70 in early autumn of last year as a result of robust cargo trade, but the market did not pick up steam during the winter demand season due in part to the penetration of OPEC production cutbacks in addition to strong supply pressure from newbuilding vessels, so results were lower than in the previous fiscal year.

The momentum of the product tanker market was also weak, though it rose temporarily due to stormy weather and rising demand during the winter season.

As a result of the overall market slowdown, profits for the Tanker Division as a whole showed a significant decrease from the previous fiscal year, but the major source for profits for crude oil tankers is mid- and long-term contracts, and methanol carriers and shuttle tankers posted stable profits. So this segment ended with a certain level of profit and showed a slight upturn from the previous outlook.

■ **LNG Carriers/Offshore Businesses**

We recorded stable profits from long-term contracts.

<Product Transport Businesses>

■ **Containerships**

Eastbound cargo trade on the Asia-North America routes increased by 5.4% in calendar year 2017, and westbound cargo trade on the Asia-Europe routes by 4.1%, and both routes marked record highs. Even since January of this year, trade on the Asia-North America routes remains strong despite the negative impact of slack period after the Chinese New Year, and a strong recovery of the trade on the westbound Asia-Europe routes, which was weakening slightly, has been underway since late March.

On the other hand, supply pressure from the launching of ultra large-size containerships remains strong, preventing a significant tightening of the demand and supply balance, and we saw only a limited recovery of freight rate levels.

We recorded equity in losses associated with the launch of ONE as a special factor for FY2017. Please refer to the figures on page 11 of the handout for this matter. ONE was established in July of last year, and at that time, we started preparing for the commencement of service and the opening of offices around the world. On the other hand, ONE still has no revenue for FY2017, so all of those generated costs will be losses for this fiscal year. As a result, the operating loss for FY2017 as ONE (100%) was about US$220 million. We recorded 31%, or ¥7.2 billion, as equity in losses.

We projected over ¥11.0 billion for this item in equity in losses in the previous outlook, but this ended with a significant reduction as the number of personnel who were allocated from the three parent companies was lower than the assumption during this fiscal year. However, commission fees for personnel outsourcing services, which we receive from ONE, also decreased by a certain level, so we saw a net improvement of around ¥2.0 billion from the previous outlook.

On the other hand, unit costs have been progressively reduced due to the launch of six 20,000TEU newbuilding containerships and improved yield management. Regardless of costs related to ONE, ordinary profit of the containership business improved by ¥22.2 billion from the previous year, reducing the ordinary loss to ¥10.6 billion. We think this is a result of the business division's efforts to achieve our initial objectives—improve as much as possible and succeed to the new company with solid results for the last fiscal year that MOL itself operated containerships.

■ **Car Carriers**

We sought to improve vessel allocation efficiency by reducing the core fleet by three vessels in FY2016 and another two in FY2017, to meet changes in trade patterns, which have resulted from a significant slowdown in trade for resource-producing countries. Its business performance remained

generally firm until the third quarter. On the other hand, our cargo volume decreased significantly, unavoidably resulting in deficits for the fourth quarter. Ordinary income in this segment ended slightly higher than the previous fiscal year, while the full-year profit is still at a very low level.

■ **Ferries/Coastal RoRo Ships**

Regrettably, FY2017 ordinary profit for this segment decreased from the previous fiscal year due to delays in delivery of a newbuilding ferry and an increase in bunker prices, though the business environment itself remains strong due to factors such as the advancement of the “modal shift” in Japan and a shortage of truck drivers.

2. Outline of the Full-year FY2018 Forecasts

[Overall]

Our revenue will total about ¥1 trillion and 100 billion, a 32% decrease from the previous fiscal year, since containership services were transferred to the equity-method company, ONE, starting this fiscal year. We project ¥40 billion in ordinary profit, a 27% increase from the previous fiscal year, and ¥30.0 billion in net income.

Over ¥10.0 billion in transitional costs related to the business integration is included in the outlook of the containership business even for FY2018. Once again, please refer to page 11.

As for the previous year (FY2017), we recorded equity in losses due to ONE’s generated costs before the commencement of ONE’s service, but for FY2018, transitional costs will shift to MOL’s general administrative expenses, which will remain in the withdrawal period after the termination of our containership service as MOL. The amount will gradually be scaled down from the first half to the second half of this fiscal year.

[By Segment]

<Dry Bulk Business>

With this firm demand, we don’t think the market will collapse, however, we don’t have an optimistic assumption on the speed of recovery, and assume that the entire market will stay at the same level as the previous fiscal year, and anticipate the full-year profits at nearly the same level as the previous fiscal year.

<Energy Transport Business>

■ **Tankers**

We forecast that overall trade of crude oil will increase, albeit in a small margin, due to

an increase in shale oil exports from North America, though trade volume for crude oil tankers from the Middle East will level off due to the extension of OPEC's production cut. Speaking of the vessel supply, scrapping has accelerated, backed by stable scrapping prices, while the number of newbuilding vessel deliveries has been high since last year. Thirteen VLCCs were scrapped in calendar year 2017, but the pace has quickened sharply, with 17 already scrapped from January through March of 2018. The crude oil tanker market remains in correction phase, but we think it will strengthen to some extent on the back of those conditions.

The product tanker market remains under pressure from newbuilding tankers, so we expect the market to meet with continued upside resistance. We will continue reducing vessels as we did last year, and strive to improve operational efficiency through pool operation.

As a result, we project that, as with Dry Bulk Business, ordinary profit in the tanker division will be at almost the same level as the previous fiscal year.

■ **LNG Carriers/Offshore Businesses**

We expect to continue recording stable profits from long-term contracts. We will steadily accumulate stable profits in this division as new projects begin operation over the next several years. In March of this year, the *Vladimir Rusanov*, the first of our ice-breaking LNG carriers launched for Russia's Yamal Project, loaded its first cargo and has been engaged in smooth LNG transport operations.

<Product Transport Business>

■ **Containerships**

As shown in the handout provided by ONE, their business plan assumes that freight rates are mostly fixed at FY2017 levels, and liftings will show a natural increase in line with the market growth rate. That is, the plan is to realize ONE's profit improvement through cost reduction, mainly through synergistic effects. We include ¥3.5 billion for the full year as our ONE-related equity in earnings of affiliates, based on the assumption that about 60% of cost reductions will be yielded in this fiscal year from the projected total synergies of about ¥110.0 billion.

On the other hand, we included transitional costs occurring within our company in FY2018, as I explained earlier.

We set a target of returning to profitability in the containership business segment for the first time since 2010 as it has profits from logistics and domestic terminal businesses, despite these transitional costs.

■ **Car Carriers**

Currently we see a sign of bottoming out in the trade for the Middle East and Africa, which has

been sluggish in recent years. We anticipate that this segment will still face severe conditions in profitability and ordinary profit will show only a slight increase from the previous fiscal year, but we continually strive to improve operational efficiency and further improve profits, while closely watching the future trends of the trade.

■ **Ferries/Coastal RoRo Ships**

We anticipate that ordinary profit of this segment will decrease slightly from the previous fiscal year, due to continuing higher bunker prices and the impact of long-term sailing cancellations. We will work to address the defects that led to cancelled voyages as soon as possible. We expect to see some positive impact from the launch of newbuilding ferries from FY2018 to FY2019, as we already see passenger reservations remaining brisk under the concept "Casual Cruise."

<Dividend>

As for the dividend for this fiscal year, we plan to pay ¥50 per share for the full-year, including the interim ¥20 per share, based on the policy for dividend payout ratio at 20%.

3. Rolling Plan 2018

[Medium- and Long-term Profit Level and Financial Indicators, Shareholder Returns]
(Presentation materials page 22)

Again, company-wide items to be enhanced—to achieve the vision for the MOL Group 10 years from now, which we announced as the Rolling Plan 2017 last year— are unchanged. The profit mid-term profit level we envision, as shown here, is also unchanged. We will enhance shareholder return, while further improving our financial strength.

[Roadmap to Improving Profit (I)] (Presentation materials page 23)

The graph shows our profit structure by breaking it down into "highly stable profits" and "other variable profits." Our "highly stable profits," which totaled ¥55.0 billion in FY2017, are projected to steadily accumulate over the next three years. We plan to significantly improve profitability by improving "other variable profits," which have offset our highly stable profits. Transitional costs related to the integration of the containership business will occur both in FY2017 and FY2018, but we envision a significant improvement of overall profitability through restoration of "other variable profits," as well as an absence of the transitional costs from FY2019.

[Roadmap to Improving Profit (II)] (Presentation materials page 24)

Through the specific measures set out on our roadmap to improving profit, we think we have the potential to grow from ¥80.0 billion to ¥100.0 billion in ordinary profit, which we envision in the medium-term, by accumulating several tens of billions of yen in “other variable profits,” on top of our “highly stable profits,” amounting to about ¥65.0 billion.

[Improve/Restore Profitability in the Containership Business] (Presentation materials page 25)

This shows how we intend to restore and improve profitability in the containership business, which is the largest driver in enhanced profitability. We are confident that the profit in this segment will improve significantly in the mid-term, as transitional costs in FY2017 and FY2018 will be absent from FY2019 on, and at the same time, ONE itself will expand profits by maximizing the synergistic effects of the integration.

[Integration of Containership Business] (Presentation materials page 26)

After the integration, ONE became an equity method company with a contribution ratio of 31%. But we continue to position the containership business as one of our core businesses. We will assign two of the six board members of ONE’s holding company, we will establish governance for ONE through this holding company, and continually offer necessary support for the new company.

[Business Portfolio and Strategic Fields for Resource Allocation]
(Presentation materials page 27)

Once again, we include our business portfolio and strategic fields for resource allocation, which was shown last year. Our strategies—allocate resources in strategic business fields where can create highly stable profits and where we have competitive edges—are unchanged.

We have already explained the LNG carriers and offshore businesses on several occasions, so today, I like to briefly touch about the chemical tankers and logistics, which we also place as strategic fields.

First, chemical tankers. Given the present circumstances, chemical tankers’ performance is struggling a little due in part to effects of the slowdown in the product tanker market. But we are in the process of receiving the deliveries of 13 new large-size vessels we have ordered, and eight have already been delivered. This will increase our competitiveness, and we think the market will recover in the near future as the newbuilding fleet supply scale tends to decline industry-wide. This is a niche business in which we are among the world’s three major companies. So we expect this business to have a stronger presence in our portfolio.

Next is the logistics business. As we announced in a press release the other day, we have decided to enhance cooperation among our group logistics companies with MOL Logistics (Japan) as the core under the unified brand of our NVOCC business as “MOL Worldwide Logistics.” We

will conduct the containership business under the ONE name from now on, but we will also provide a product transport service under the MOL brand, as a choice for customers.

Furthermore, as a project that links those two business divisions, we invested in Nippon Concept Corporation, which provides door-to-door international multimodal transport with tank containers, and will move ahead with business alliance. This allows us, for example, to provide a new service lineup for our chemical tanker customers. So we think it will further the growth strategies of both the chemical tanker and logistics businesses.

[Investment Cash Flows] (Presentation materials page 28)

As a result of identifying our future resource allocation fields, we have budgeted ¥350.0 billion for investment cash flow over the next three years. We will continue investment with a strong focus on LNG carriers, offshore businesses, chemical tankers, and so on. As for offshore businesses, we will continue working to acquire new projects, including FSRUs, while laying out cash in already-settled FPSO projects in succession. , We will be selective about new investment projects, in addition to carrying forward with asset sales including cross-shareholdings, to minimize the burden on our free cash flows.

[Establishment of Technology Innovation Unit] (Presentation materials page 31)

We established the “Technology Innovation Unit” as a new initiative to promote technology development, which is one of the company-wide issues to be enhanced, listed even in the “Rolling Plan 2017.” We established a system in which the Technical Division, system divisions, and others concerned are united to develop new technologies and applications for ICT, which are the source of future competitiveness, while gaining external knowledge and expertise. We plan to focus primarily on three fields: LNG-fueled vessels, the Wind Challenger Project, and autonomous sailing, listed on this page.

4. Ocean Network Express

As shown on page 2 of the material provided by ONE, we project about ¥11.0 billion in synergistic effects from the integration. As a result of further scrutiny by ONE, they plan to target about 60% of that synergy yield in the initial year, about 80% in the second year, and 100% in the third year.

Reduction of variable costs such as inland transport fees for railways, trucks, and so on, and terminal costs account for the largest portion in the breakdown. We will achieve this by adopting the best price among conventional rates adopted by the three parent companies.

As ONE services commence, we see some inconvenience for customers due to a shortage of

skilled personnel and an insufficient familiarity with the system. We have received reports that they have already taken steps to address this urgent problem. It is the first fiscal year for the new company, and we have to say it might be difficult to achieve completely smooth operation, but all employees are united in pushing strongly ahead to improve quality, reliability, innovation, and customer satisfaction. MOL pledges that ONE will provide containership services, while we provide whatever ongoing support ONE requires. We ask you for your continuing support.

5. Questions and Answers

[Containership Business]

Q1) What is the breakdown of the minus ¥11.5 billion for transitional costs, which is projected to be recorded in FY2018? Are you sure these costs will disappear in one year? Please tell us if there are any risks remaining in the next fiscal year and beyond.

A1) It is general administrative expenses as an expense item. Specifically, it includes personnel costs, non-personnel costs such as office leasing, and computer system costs. Most of them will be settled in FY2018. But we expect that some system costs will remain in FY2019 through FY2020 to respond to various legal requirements.

Q2) How much do you include the improvement in FY2018 and beyond of profits from the current recorded extraordinary losses?

A2) The extraordinary losses are lump-sum provisions for the legacy costs of containerships, which we had arranged with high charter fees in the past. Please think of a simple scenario—profits in the containership business from FY2018 onwards are "31% of ONE's profits" and "the total profits of terminal and logistics businesses in Japan remaining at MOL."

Q3) Please tell us, did you estimate the entire period of chartering-out to ONE in recording extraordinary losses, or just a part of the period? And please tell us if the estimate of losses is linked to the market, or calculated by other methods?

A3) We targeted the entire period of chartering-out to ONE. The way to determine charter hire with ONE is basically linked to the charter market, so the hire will vary a little every year. But we reasonably estimated the amount of provisions through discussions with our auditors. If the containership charter market strengthens in the future, this means the provisions we set aside were too high, so we will be generating profits. But if it weakens, it may result in slight negative yields for charter-out vessels. In any event, we think the impact will be minor.

Q4) Is my understanding— that profits in Japan's domestic terminal business will decrease or increase only slightly between FY2017 and FY2018—correct?

A4) It will be a slight decrease.

[Other]

Q1) You forecasted a slight increase in profits of Energy Transport Business despite the delivery of newbuilding LNG carriers. What other factors prevent you from expecting a large increase?

A1) One factor is that LNG carriers are very expensive, which imposes heavy burdens of depreciation and interest for several years after the start of operation, so profits are relatively small in the first years after delivery of the vessel. As interest payments decrease, profits will increase. We are now at a point where profits start increasing by about ¥4.0~5.0 billion annually in the future. We expect the newbuilding LNG carriers to gradually contribute to a full-scale increase in profits through around 2020.

Q2) Please explain why highly stable profits (of already settled projects) will increase just slightly until FY2020 in "Rolling Plan 2018," even though LNG carriers will contribute to an increase in profits on a full scale.

A2) One of the reasons is a slight loss by changing our assumption of the exchange rate from ¥110/$ to ¥105/$. Another reason is that stable profits in dry bulkers and tankers will decrease due to the termination of long-term contracts, while stable profits of LNG carriers and offshore businesses will increase. However, as shown in the additional targets, we will strive to renew contracts for dry bulkers and tankers, so we anticipate that stable profits will steadily increase if we include these efforts.

[END]